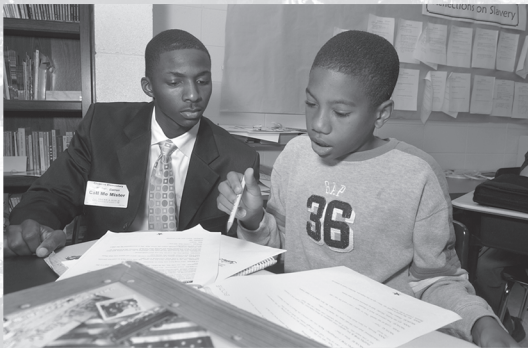


# Financing Education in South Carolina

## A Citizen's Guide



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Strom Thurmond Institute  
of Government and Public Affairs  
Clemson University



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**by**

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**Strom Thurmond Institute of Government and Public Affairs  
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# *Education in South Carolina*

- ▶ The state's 1895 constitution established a three-mill levy on various kinds of property to be used to finance education in the counties.
- ▶ The three-mill levy produced inadequate revenue in the poorest counties and in counties where property was underassessed.
- ▶ A county's state senator and House members controlled school districts from Columbia, passing bills in the General Assembly to approve the sale of bonds for school building projects and increasing debt limits when necessary.
- ▶ Compulsory public education came to the state in 1921.
- ▶ The state's financial responsibility for education increased in the thirties when the state mandated a six-month school year, doubling the days of education required.
- ▶ In 1955 during desegregation of schools, compulsory education was repealed.
- ▶ Compulsory public education was restored in 1967.
- ▶ Today the state provides from 26.5 percent to 93.4 percent of local funding for current operations, depending on a district's ability to pay.
- ▶ The structure and fiscal powers of school districts are very diverse because they are determined by the General Assembly by special legislation.
- ▶ South Carolina has set up a financing structure for education that recognizes that the quality of a child's education should not rest solely on the size of the tax base in a district .

## ***recent developments***

- ▶ In 2003-04, South Carolina spent \$3.0 billion in state dollars to fund elementary and secondary education—18.2 percent of all state expenditures.
- ▶ Funding of Head Start, libraries, and school health care are not included in the \$3.0 billion.
- ▶ Compared to 2002-03, state funding in 2003-04 decreased by 4.0 percent and federal funding by 5.4 percent. Total funding fell by 7.4 percent. In 2002-03 state funds increased by 0.2 percent, federal funds by 18.1 percent and all

funds by 1.0 percent.

► Expenditures for elementary and secondary education from the general fund in 2003-04 were \$1.8 million or 37.0 percent of general fund expenditures.

► State aid was 51.1 percent of district revenue from all sources in 2002-03.

► State funding of education was affected by across-the-board budget cuts of \$43 million in 2003-04. These cuts were in addition to the decision to hold the per pupil funding of the Education Finance Act at 2001-02 levels.

► In addition to state funds allocated under the EFA for the base student cost of the defined minimum program, the state also provides funding under the EIA, from general and supplemental appropriations, from the lottery, and other minor sources to support elementary and secondary education.

### ***state legislation***

► The Education Finance Act (1977) defines a foundation program for education and details the responsibility of the state and local districts for financing elementary and secondary education on a formula basis.

► The Education Improvement Act (1984) provides funding for programs raising student performance, emphasizing basic skills, evaluating the teaching profession, rewarding productivity, and constructing school buildings.

► The Education Accountability Act (1998) sets up a performance accountability system for public education to improve teaching and learning to provide a strong academic foundation for students.

► The state allocates four cents or 80 percent of the sales and use tax to the state general fund to be used for education. The fifth cent is allocated to a special fund for activities outlined in the Education Improvement Act.

► In fiscal year 2002-03, the sales and use tax provided \$1.5 billion for allocation to the general fund for education and \$382.4 million for the EIA fund.

► The legislature has approved a one-cent local school sales tax for eight counties by special legislation.

► Cherokee, Chesterfield, Clarendon, Darlington, Jasper, and Lexington counties are using the local school sales tax. Berkeley and Union counties are not using this tax although they may adopt it by referendum.

### ***governance***

► School districts are governed by school boards of directors.

► Most districts directly elect school board members. However, board members are appointed in seven of the eighty-five districts. In Clarendon One, five seats are elected and four appointed.

- ▶ In five multidistrict counties, county boards of education have some responsibility for education.
- ▶ In Clarendon County and Dillon County, the legislative delegations appoint county boards which make appointments to the Clarendon One and Two and Dillon One, Two, and Three school boards. Marion County's county board is elected and appoints school board members and has fiscal authority over Marion One, Two, and Seven. The Anderson County Board of Education has fiscal authority over five local school boards; Orangeburg County's county board has limited fiscal authority over the county's three districts.
- ▶ All school districts employ a superintendent of schools to administer board policies and manage day-to-day operations of the school district.

### ***school districts***

- ▶ At one time, the state had over 1,700 school districts.
- ▶ The size of early school districts was limited to seven square miles, presumably because no transportation was provided.
- ▶ The number of school districts were reduced to 120 in the 1950s when statewide funding of school transportation began and a three-cent sales tax financed an extensive school building program, consolidating rural schools.
- ▶ Today, eighty-five school districts provide educational services in the state. In recent years, six smaller districts in counties with multidistricts have consolidated with neighboring districts.
- ▶ The number of students served in 2002-03 ranges from 61,887 in the Greenville County district to 888 students in Dillon One. The median district, Spartanburg One, educates 4,372 students.
- ▶ Twenty-nine districts follow county lines. Seventeen counties have multiple districts. Ten school districts also serve small parts of neighboring counties.

### ***governance in other states***

- ▶ In seven states, including North Carolina, Tennessee, and Virginia, schools are a county responsibility. Municipalities or townships are responsible for public schools in eleven states. In other states, school districts are independent often but not always with fiscal autonomy.
- ▶ When other levels of government have responsibility for schools, officials can take into account the needs of schools and need for other public services when budgeting and setting tax rates. But, schools may get more concentrated attention when a board is elected solely to supervise public education.
- ▶ In other states, school districts receive local sales tax revenue, wage taxes, income taxes, and construction impact fees.

# ***Local Funding for School Districts***

- ▶ School districts rely almost solely on revenue from taxation of real and personal property to fund the local share of the base student cost of providing the defined minimum program under the Education Finance Act.
- ▶ School property tax accounts for about 60 percent of the total property tax bill in the average county.
- ▶ Local revenue for funding education in 2002-03 was \$1.8 million
- ▶ Local funds provided 42.5 percent of state and local school district operating revenue in 2002-03 on average, not including property tax relief.
- ▶ Districts may provide enhancements beyond the defined minimum program by raising additional local revenues.
- ▶ Most school building construction costs are covered by local bond issues with no assistance from the state.

## ***district responsibilities***

- ▶ School districts are expected to provide education from kindergarten through twelfth grade and various support and adjunct services such as vocational education, adult education, transportation, and school lunches. Minimum standards are set by the state.
- ▶ School boards have some discretion over teacher salaries.
- ▶ School boards plan the school construction program and how to fund it.
- ▶ School boards can also decide whether to offer a program for pre-kindergartners and whether to offer locally funded after-school care.
- ▶ In some districts, school boards set the budget and the mill rate, while in others this power may belong to county council, a county-wide board of education, or the legislative delegation.
- ▶ When state funding is insufficient, local school boards may be granted more flexibility in determining class size and other factors that affect their costs.
- ▶ Teacher qualifications, their minimum pay and benefits, curriculum, instructional days, and time requirements for classes are decided by the state.
- ▶ Because school districts have few alternative revenue sources, reductions in state funding often cause higher fees for extracurricular activities and field

trips or more use of fund-raising activities by volunteers.

### ***sources of revenue***

- ▶ School districts in South Carolina are limited in the ways they may raise money. They rely primarily on state aid and the local property tax to fund education.
- ▶ When more funds are needed for education, some districts with fiscal autonomy can respond to the need immediately. In other districts, the process of raising property tax revenues is more complex.
- ▶ State formulas set a minimum local share of funding based on a district's ability to raise funds. Raising a local share is required to receive state funding.
- ▶ The legislature has exempt the first \$100,000 of the market value of all owner-occupied houses from property taxes for education at the tax millage rate in effect in 1995 when the exemption was granted. The state does not fully fund the exemption, so some of the cost falls on school districts.
- ▶ School districts are reimbursed for the state phaseout of the tax on business inventories at the 1987 mill rate and assessed value of inventories.
- ▶ The state reimburses school districts for revenues lost because of the \$50,000 homestead exemption for the elderly.

### ***fiscal authority***

- ▶ Twenty-three districts in thirteen counties have total fiscal independence to approve their own budgets and set their own mill rates:  
Aiken, Berkeley, Charleston, Cherokee, Chester, Darlington, Edgefield, Georgetown, Horry, Lexington One through Five, Marlboro, Spartanburg One through Seven, and Union.
- ▶ Twenty-nine districts have no fiscal authority:
  - In Dillon One, Two, and Three the legislative delegation approves the budget.
  - In Florence Two, Three, and Five the budget is approved in town meetings.
  - Fourteen county councils approve budgets of twenty school districts:  
Beaufort, Calhoun, Clarendon One through Three, Colleton, Greenwood Fifty through Fifty-Two, Hampton One and Two, Jasper, Lee, McCormick, Oconee, Richland One and Two, Saluda, and Sumter Two and Seventeen.
  - Three districts need special legislation to exceed legislative caps:  
Abbeville and Kershaw need council approval to exceed a cap.



Florence One must hold a referendum to increase millage.

► Thirty-three districts have limited fiscal authority:

Allendale, Anderson One through Five, Bamberg One and Two, Barnwell Nineteen, Twenty-nine, and Forty-Five, Chesterfield, Dorchester Two and Four, Fairfield, Florence Four, Greenville, Lancaster, Laurens Fifty-five and Fifty-six, Marion One, Two, and Seven, Newberry, Orangeburg Three through Five, Pickens, Williamsburg, and York One through Four.

Special legislation has given them the ability to raise taxes by formula or up to a limited mill increase. To exceed limitations, some must seek approval through referendums, county council, the legislative delegation, or the county board of education,

## ***Property Tax***

### ***assessed value***

► Counties administer the property tax on behalf of school districts.

► The property tax is determined by applying the assessment ratio for the various classes of property to the taxable wealth of the district in each class and then multiplying by the mill rate.

► The assessed value per pupil in a district indicates the ability of a district to support education.

► In 2002-03, Beaufort County's assessed valuation per pupil was \$51,984, the highest of all districts. York Two, Greenwood Fifty-Two, Charleston, and Horry County had assessed valuations per pupil above \$40,000.

► Edgefield County with an assessed valuation per pupil of \$14,967 was the median district. Clarendon Three (\$6,305) and Lexington Four (\$7,332) had the lowest assessed valuations per pupil in 2002-03.

### ***the mill rate***

► The mill rate is the number of mills levied to raise a specific amount of revenue.

► In 2002-03 Laurens Fifty-Five had the median mill rate for a school district at 170 mills. This rate covered both current operations and debt service.

► Lexington 4 had the highest mill rate in 2002-03 at 282.07.

► Greenwood 52 had the lowest mill rate in 2002-03 at 108.20.

***impact of  
tax increment  
financing***

► Tax increment financing authorizes the redevelopment of blighted areas by local governments. Local governments keep all the increased tax revenues created by public investments in the blighted area. The extra tax revenue raised in the designated area is used to finance public improvements in the zone with the goal of expanding the tax base.

► Creating a tax increment financing district requires the consent of the school district since the schools will not receive any of the increase in revenue from the tax zone for a limited period while the bonds issued for the improvements are being repaid by the local government from increases in revenue in the zone until the zone expires. Then the school district will benefit from the increased value of the properties in the tax zone.

## ***Borrowing***

***short-term loans***

► School districts may issue short-term tax anticipation notes to provide an income flow until tax revenues become available in November, almost half way through the fiscal year.

***general obligation  
bonds***

► School districts may borrow through general obligation bonds to finance construction programs. Borrowing is limited to a maximum of 8 percent of the district's assessed property value. To exceed the limitation, a referendum is required.

***lease purchase***

► Some school districts have used lease purchase arrangements, similar to installment purchases, as an alternative to borrowing because of the 8 percent limit.

***referendums***

► In 2204 and 2005, five building referendums totaling \$688 million passed in York Three (Rock Hill), Horry County, Lexington One, Richland Two and York Four. Clarendon One's vote on a \$5.2 million building referendum did not pass.

► A \$381 million referendum, the largest ever, passed in Richland One in 2002.

# ***Education Finance Act***

- ▶ The Education Finance Act (EFA) provided \$1.1 billion in state aid to education in 2004-05 in order to equalize per pupil funding for elementary and secondary education.
- ▶ In 2004-05, local school districts provided \$460.4 million in required local support.
- ▶ In order to receive EFA funds, a school district must provide its required share of the base student cost of the defined minimum program based on its district's wealth and its index of tax-paying ability.
- ▶ The EFA, by formula, provides an average of 70 percent of the cost of the required foundation program or defined minimum program while local districts provide an average of 30 percent.
- ▶ Wealthier districts receive a smaller percentage of the cost of providing the defined minimum program under the EFA, and poorer districts receive a greater percentage of the cost.
- ▶ Beaufort County, because of its wealth, received 19 percent of the cost of providing a defined minimum program under the EFA formula in 2004-05. Charleston (41 percent), York Two (42 percent), and Greenwood Fifty-Two (47 percent) received less than 50 percent of their funding from the EFA. Ten additional districts received less state funding than the act's average of 70 percent of the cost of providing the defined minimum program. Spartanburg Six was right at the 30-70 percent EFA funding ratio.
- ▶ Marion Seven received 93 percent of the base student cost per pupil from the state, and Clarendon Three received 92 percent. Sixty-eight additional districts received more than 70 percent of the base student cost per pupil from the state.
- ▶ The formula for determining how much money a district will receive from the EFA and the amount the district must provide is based on the weighted pupil units in a district, the base student cost per pupil as defined annually by the legislature, and the index of taxpaying ability in a district.

***index of taxpay-  
ing ability***

- ▶ Each school district must meet a requirement for local support based on its index of taxpaying ability to receive its full allocation of EFA funding.
- ▶ The measure of required local support, also called local revenue-producing ability or fiscal capacity, is based on the market value of real and personal property in a school district including industrial property with county fee-in-lieu-of-tax agreements. The fiscal capacity of the state is the market value of all property in the state.
- ▶ In 2002-03, the index of taxpaying ability was computed on the basis of the 2000 state property tax value of \$16.5 billion. The act allows for a two-year lag in reporting taxable property values.
- ▶ Each district's index is calculated by dividing the fiscal capacity of the school district by the fiscal capacity of the state. The district's ability index shows what percentage of the total state property value is in that district.
- ▶ Charleston County school district has the highest property value of all the state's eighty-five districts, \$2.0 billion. Its ability index of 0.122420 means it has 12.2420 percent of the state's taxable property.
- ▶ Marion Seven has the lowest district property value, \$5.3 million and 0.0320 percent of the state's taxable property with an ability index of 0.000320.
- ▶ The Department of Revenue annually updates records of the assessed value of all taxable property in the state and calculates an index of taxpaying ability for every district to be used in the EFA distribution formula.

***base student cost***

- ▶ The base student cost of providing the EFA's defined minimum program is adjusted annually for inflation. No changes in quality, higher expectations, or system demands are taken into account.
- ▶ The base student cost covers the cost of providing classrooms, teachers, supplies, and other needs to provide the level of educational quality desired by the state in 1977.
- ▶ When EFA funding began in 1979, the base student cost per pupil for the defined minimum program was \$791. The new funding system was implemented over five years from the date of the act in June 1977.
- ▶ Since adoption of the EFA, the base student cost has been funded at or near the requirements of the EFA only eight years out of twenty-six. The 83 percent funding in 2003-04 and 80 percent funding in 2004-05 have been the lowest since the adoption of the act. Only during the first year of implemen-

tation was state funding also below 90 percent. Even during previous recessions, funding was held above 90 percent.

► In 2004-05, the base student cost under the formula was \$2,203; but after budget cuts by the legislature, the base student cost was reduced to \$1,774.

► The 2005-06 Appropriations Act sets the base student cost at \$2,290 which represents full funding of the inflation-adjusted base student cost.

► The cost of education has risen considerably more than the rate of inflation because of improvement in teacher credentials, higher salaries, smaller classes, federal requirements, more accountability, and other increases in quality.

► As a result of increased costs, funds from the Education Finance Act, which provided 52.6 percent of total operating funds in 1980, provided only about 21.0 percent of total operating funds in 2002-03.

### ***weighted pupil units***

► The state is committed to funding a foundation program for each student based on the cost of his or her education .

► The EFA defines a weighted pupil unit for each type of student in the education system to use in the state financing formula.

► Weightings are determined by considering the cost of educating different student populations based on their specific educational needs.

► The department considers grade level, learning disabilities, various kinds of physical and emotional disabilities, homebound students, and vocational students to determine weighted units. Students in grades four through eight are given a weighting of 1.0 while autistic and visually and hearing handicapped students are weighted at 2.57.

► In 2004-05, 22.3 percent of finance act funding was used to educate students with physical, emotional or learning disabilities.

► In 2004-05, the total of all weighted pupil units in the state numbered 839,966.59. The actual pupil count for the same year was 665,123.52.

► In the same year, the largest district had 79,854.92 weighted pupil units and the smallest district had 1,083.13 weighted pupil units.

### ***applying the efa formula***

► Step 1: Calculate a district's total current operating funds under EFA:  
*weighted pupil units (wpu) x base student cost (bsc)*

For Charleston County:  $52,541.45 \times \$2,033 = \$106,816,767.85$

For Marion 7:  $1214.74 \times \$2,033 = \$2,469,566.42$

- ▶ Step 2: Calculate a district's required local match:  
*state wpu x bsc x index of taxpaying ability (ita) x .30 (average local match)*  
 For Charleston County:  
 $829,298.29 \times \$2,033 \times 0.122420 \times .30 = \$61,694,700.82$  local match  
 For Marion Seven:  
 $829,298.29 \times \$2,033 \times 0.000320 \times .30 = \$161,852.49$  local match
- ▶ Step 3: Calculating the state aid from the EFA:  
*total local & EFA (step one answer) minus local match (step two answer)*  
 For Charleston County:  
 $\$106,816,767.85 - \$61,694,700.82 = \$45,122,067.03$  EFA aid (42.4%)  
 For Marion Seven:  
 $\$2,469,566.42 - \$161,852.49 = \$2,307,713.93$  EFA aid (93.4%)
- ▶ The base student cost in 2002-03 of \$2,033 as included in the state budget later was reduced after two mid-year budget cuts to \$1,769.84. As a result, Charleston and Marion Seven's final state allocations under the EFA were less than the amounts based on the original base student cost.

## Other State Funds for Education

### ***education improvement act***

- ▶ In 1984, the General Assembly passed the Education Improvement Act (EIA) with funding for its programs provided by the addition of one cent to the state sales and use tax. As a result, the sales and use tax rose from four cents to five cents.
- ▶ The EIA focuses on raising student performance, strengthening teaching and testing of basic skills, elevating the teaching profession, improving management and fiscal efficiency, rewarding schools and school districts on measurable performance and progress, implementing quality control, rewarding productivity, creating effective partnerships, and providing school buildings conducive to learning.
- ▶ The EIA funded some 30 grant programs in 2004-05. Teachers' salary increases and benefits received the largest allocation of \$261.1 million. EIA grants for academic assistance to all grades from kindergarten through grade twelve, early childhood education for four-year-olds, and gifted and talented programs totalled \$162.8 million.

### ***other state grants***

- ▶ Restricted monies from the state appropriations act provided \$428.6 million for fringe benefits and retirement insurance for school personnel. General appropriations also paid bus drivers salaries of \$40 million and salary supplements of \$11.3 million for teachers with National Board for Professional Teaching Standards certification.
- ▶ Appropriations of \$79.6 million funded reduction of class size in grades one through three, increases in high school diploma requirements, and summer school.
- ▶ The state purchases all school buses and all textbooks for school districts .

### ***property tax relief***

- ▶ In the last decade, the state has shifted some of its aid from providing resources directly to school districts to providing resources in the form of property tax relief to individual taxpayers.

- ▶ The state passes tax dollars through to school districts to reimburse for revenue losses due to state property tax relief rollbacks on the first \$100,000 dollars of market value of owner-occupied residential property at 1995 school mill rates. School districts received \$249 million from the state in reimbursements for tax losses in 2004-05 from the school property tax relief fund.
- ▶ Although some state officials may consider property tax relief to be state funding of local school districts, others consider it to be pass through of state funds to taxpayers. The amount returned is not related to the EFA funding system and does not increase resources available to school districts.

### ***the lottery***

- ▶ In 2000, South Carolinians voted to amend the constitution to permit a state lottery, called the South Carolina Education Lottery.
- ▶ The lottery enabling legislation provides that “proceeds of lottery games must be used to support improvements and enhancements for education purposes and programs as provided by the General Assembly” and that the net proceeds must be used to supplement, not supplant, existing resources for education purposes and programs.
- ▶ The General Assembly approves allocation of the lottery proceeds each year in the state budget.
- ▶ Higher education claims the larger share of the \$329 million in lottery revenues appropriated in 2004-05. Its two-thirds share of \$220.8 million went for various kinds of college scholarships and grants. About 10 percent of higher education monies went to other higher education programs.
- ▶ Preschool, elementary, and secondary education received an appropriation of \$102.8 million in 2004-05, less than 2 percent of total funding for school operations. Forty-five percent funded the five-year-old kindergarten program in reading, math, science and social studies program. About 28 percent funded the employment of teacher and principal specialists. Some of the programs funded were mandated by the Education Accountability Act.
- ▶ The Educational Television Commission, State Library, and Department of Alcohol and Other Drug Abuse Services received \$5.4 million in lottery funds in 2004-05.
- ▶ Lottery revenues and appropriations since the lottery began operations in January 2002 can be found at <http://www.sceducationlottery.com/about.asp>, the Education Lottery’s Web site.



# ***Federal Aid to Education***

- ▶ The purpose of most federal aid to education is to improve education services for students under a particular disadvantage so they can have the opportunity to meet the same challenging state academic content standards and academic achievement standards that all children are expected to meet. These funds may not replace state funds or other federal program funds.
- ▶ In 2002-03, South Carolina districts received \$548.3 million in federal revenue—\$853 per pupil or 11.2 percent of all revenue for education.
- ▶ Highest per pupil allotment, \$3,447 went to McCormick County which receives national forest impact aid. Allendale, Bamberg Two, Clarendon One, and Marion Seven received from \$2,000 to \$2,600 per pupil. More affluent districts—York Four, Lexington One, Lexington Five, York Two, and Spartanburg Six—received less than \$450 per pupil.

## ***children in poverty***

- ▶ Title 1, Part A of Public Law 103-382, is the 1994 reauthorization of the Elementary and Secondary Education Act of 1965. The act, known as the ESEA, is the federal government's largest program to fund education. It focuses on children in poverty and at risk academically.
- ▶ In 2004-05, 559 schools in South Carolina received \$157.2 million in Title 1 aid. Eighty percent of the monies went to elementary schools. All school districts have schools that receive Title 1 funds.
- ▶ In the same year, the US Department of Agriculture provided \$158.1 million to fund food service programs in South Carolina schools.
- ▶ Another \$71 million in federal aid went to improve teacher quality, vocational and technical education programs, and local reading improvement.

## ***migrant education***

- ▶ The No Child Left Behind Act, Public Law 107-110, grants funds to qualifying states to benefit qualified migrant students.
- ▶ School districts receiving funds must provide support services that help migrant students to overcome educational disruption, cultural and language

barriers, and other problems associated with frequent moves.

► In 2004-05, seven South Carolina districts received \$439,456 dollars in aid to summer programs to migrant children. Amounts ranged from \$84,322 in Charleston County to \$48,400 in Spartanburg Two and Newberry County. Aiken, Clarendon Three, Saluda, and Beaufort County also received funds.

***neglected, delinquent children***

► This ESEA title supports prevention and intervention programs for youth and children who are neglected, delinquent, or at risk. The program provides educational services in local and state institutions for neglected or delinquent youth or children to prevent school drop-outs and to help children to make a successful transition to further schooling or employment.

► In 2004-05, the program gave South Carolina state and local agencies \$2.4 million.

***comprehensive school reform***

► This grant program supports schools to apply and develop teaching programs based on reliable research and effective teaching practices.

► In 2003-04, the state awarded \$4.9 million in competitive grants to twenty-four school districts to implement model teaching programs.

***esol***

► English to Speakers of Other Languages (ESOL) funds language instruction for immigrant and limited-English proficient students.

► In 2003-04, \$2.3 million helped children in seventy-five districts. Greenville County received \$284 thousand and Beaufort County, \$234 thousand. Charleston, Horry, and Berkeley districts also received sizeable amounts.

***title 5***

► Funds are available for improvement of instruction, staff development, library services, and instructional supplies and equipment under Title 5 of the ESEA. For 2005-06, the state has received \$2.6 million in aid under Title 5. Every district receives aid, based on enrollment and low income students.

***reap***

► The Rural Education Achievement Program (REAP) provides noncompetitive grants to small, low-income rural school districts for a range of educational activities authorized in various titles of the ESEA.

► In 2004-05, \$2.3 million in funds went to twenty-two school districts. The largest grants went to Georgetown, Colleton, and Williamsburg counties, home districts to one-third of the 62,219 students served by REAP funds.

# ***Funding Disparities Among Districts***

## ***historic legacy***

- For more than seventy years, a system of property assessment administered by the counties ignored the constitutional requirement that personal and real property should be assessed at 100 percent of market value. Because of self-reporting of property values, it was also easy to avoid taxation by not reporting or undervaluing property. Much personal and real property never made its way into the tax books or vanished from the tax books completely. Lack of statewide standards for assessment meant a horse or mule was assessed at \$28.70 in Pickens County and \$86.48 in Georgetown County.
- In the early seventies, the legislature was faced with lawsuits from business and industry whose property was assessed by the state on a yearly basis with uniformity for all like properties. Business and industry held taxes in escrow in protest of the lax application of the assessment system of residential property, farm land, forest resources, and personal property at the county level.
- As a result, the legislature proposed constitutional changes which put in place an assessment system based on market value assessment and taxation based on a system of property classification. A uniform assessment system made it possible to develop a state education funding system that would reduce inequality in per pupil funding from the state. The Education Finance Act is the main tool for providing equalized funding.
- School districts in parts of the state where plantation agriculture and slavery dominated the economy for more than a century still bear the effects of past undereducation and a dual segregated school system with unequal funding between the races.
- A lawsuit filed by thirty-four school districts against the state in 1993 claimed that funding of education in the state was inadequate and inequitable. The suit has been making its way through the courts including two trips to the state's supreme court. Beginning in 2003, eight remaining plaintiffs, spent eighteen months in court on the issue. A decision on *Abbeville v. South Carolina* is expected in late 2005, but both sides are prepared to appeal.

***does the efa  
equalize?***

- ▶ Because the EFA is only about 30 percent of state and local funding, the reduction in inequalities among districts by the EFA is not large.
- ▶ State aid in 2002-03 provided \$2,281 (the lowest state aid) per pupil in Beaufort County and \$5,783 (the highest state aid) in Bamberg Two. When combined with local revenue, Beaufort's operating revenue was \$7,547 per pupil and Bamberg Two's was \$8,241, a difference of about \$700 per pupil.
- ▶ Much of the \$700 difference is accounted for by the higher costs per pupil of operating a small rural school district. But in order to raise its local share of \$2,458 per pupil, Bamberg Two's mill rate was 232.9, one of the highest in the state. On the other hand, Beaufort needed a mill rate of only 129.2 to raise Beaufort's local share of \$5,266 per pupil.

***property tax base***

- ▶ The property tax base—the value of the taxable property in a school district—varies greatly from district to district. Taxable wealth per pupil indicates the wealth of a district and its ability to support its schools without imposing high mill rates. The average assessed valuation per pupil statewide is \$22,184. However, the gap between the assessed valuation of \$51,984 per pupil in Beaufort County and \$6,305 in Clarendon Three is over \$45,000.

***mill rate***

- ▶ Because of the variation in the value of the property tax base in different districts, one mill raises widely divergent amounts. One tax mill raises \$882,522 in the large and wealthy Beaufort County school district, but only \$7,878 in Clarendon Three.
- ▶ The mill rate in Beaufort County is 129.2 mills (ranks 80), and in Clarendon Three is 262 mill (ranks 3). Lexington Four has the highest mill rate at 282.07 and Greenwood Fifty-Two the lowest at 108.20.
- ▶ Some districts have high mill rates because of a limited tax base like Clarendon Three. Others have high mill rates because they choose to invest more money in the school system. Still others with high mill rates are suburban districts demanding quality schools with little commercial or industrial property to help shoulder the cost.

***tax effort***

- ▶ The tax effort index measures what each district actually raises in property taxes for school operations relative to what it would raise if it levied the average mill rate on its property tax base. The index allows citizens to compare how hard their district is trying to support education compared to other

districts.

► A district making an average effort has an index of one. Marion Seven with an index of 5.210, the highest index, makes an effort five times the average.

► Of the four districts with over \$100 million in tax revenues for current operations, only Richland One makes an above average tax effort of 1.542. Along with Richland One, Charleston (0.647), Greenville (0.774), and Horry (0.825) have a little over one-third of the state tax base or wealth.

► Because some districts make a much greater effort than others to raise local funds for education, the state has put local match requirements in the EFA and maintenance of effort requirements in the EIA to ensure that low-tax districts do not just replace local funding with state funding, but use those funds to increase total resources per pupil.

### ***economies of scale***

► All districts must have certain basic services and programs such as administration (district leadership) and transportation no matter the size of the district. Obviously, the cost per pupil of district leadership is higher in small districts than in larger districts.

► In 2003-04, sixteen of the seventeen districts with 10,000 or more pupils spent less than the state median of \$221 per pupil on district leadership. All districts with less than 2,000 students spent more than the state median on district leadership per pupil. Bamberg Two spent \$1,068 per pupil. The four smallest school districts with enrollments of under 1,000 spent an average of \$461 per pupil. Spartanburg Six with 9,201 pupils spent \$62 per pupil, the lowest amount on district leadership of any district.

► Small rural districts may have high transportation costs per pupil because students live far apart. But, districts with high enrollments with sparsely populated areas may also have high transportation costs. In 2002-03 Greenville County schools, the largest district with over 60,000 students, had an average transportation cost per pupil of \$166, the state median. Six districts with more than 10,000 students had higher transportation costs than Greenville from \$199 to \$269 per pupil while nine had lower costs from \$159 to \$125. Darlington and Dorchester Two also had transportation costs of \$166.

### ***federal funds***

► Federal aid reduces some disparities among districts. However, federal funds are directed at specific programs or specific target populations and do not necessarily provide significant help with regular school operations.

# ***Policy Issues in Financing Education***

## ***district size***

► Education in South Carolina is provided by eighty-five school districts, a considerable reduction over the 1,200 or more districts that existed half a century ago. However, there are still many small, mostly rural districts (eighteen with less than 2,000 students) with very limited taxable resources and high transportation and administration costs on a per pupil basis. These districts would benefit from being part of a larger district with a greater tax base per pupil. Consolidation might reduce some of the existing problems of adequacy and equity between districts and pupils.

## ***fiscal autonomy***

► If local school boards are to be accountable, they need the authority to manage their own financial affairs. The lack of fiscal autonomy in some school districts and the lack of uniformity in the degree of autonomy makes it more difficult for some school districts than others to respond to changes in state funding, educational costs, loss of tax base, change in school population, or other challenges on either the cost or revenue side of the budget.

## ***economic disparities***

► South Carolina's spending per pupil is within a reasonable range in relation to the southeastern and national averages. However, that average conceals significant disparities between the richest and poorest districts on all the financial indicators: assessed value per pupil, mill rate, and operating revenue per pupil.

► Important steps were taken in the 1950s, the 1970s, and the 1980s to provide additional financial resources for education through the retail sales tax in the 1950s, the EFA with the state funding 70 percent of base student cost in the 1970s, and the EIA in the 1980s with an extra penny of sales tax dedicated to educational improvement. Despite those important steps to increase the state's share of education funding and to equalize per pupil resources to some degree, substantial differences in revenue per pupil and in the mill rates

local districts must levy in order to raise the local share of the cost this remain.

► With the prospect of more demand for state funding to reduce disparities between districts as a result of the current court case, *Abbeville v. South Carolina*, the General Assembly is under pressure to reconsider the size and the revenue stream used to fund public education.

***state and local  
shares***

► Like most states, South Carolina relies on a partnership between the state and school districts in financing and managing public education. South Carolina is close to the national average in that division of responsibility with a state share of 51 percent and a local share of 49 percent. However, local funding has been absorbing an increasing share of the rising cost of education in the last fifteen years.

***role of property  
tax***

► There are frequent proposals to eliminate the property tax as a source of education funding in South Carolina and elsewhere. Such a change would mean a significant loss of local autonomy and local control of schools. The property tax has historically been the tax most suited to local use, and there is a strong relationship between school quality and property values. While the state still searches for the appropriate balance between state and local funding shares, the property tax continues to have an important role to play in education finance.

# What Can a Citizen Do?

## ***the challenge***

- ▶ A democratic system of government depends on the participation of informed citizens. Citizens who are aware and informed on public issues are an important counterweight to special interests seeking more money for their own purposes or trying to lower their own tax burdens or regulatory constraints. Citizens must represent the general interests when decisions are being made not only about the appropriate level of taxes supporting education but also the quality of public educational programs and facilities.
- ▶ A quality education system benefits all citizens whether or not they have children in the schools.
- ▶ A well educated citizenry makes democracy work. A well educated citizenry provides a competent workforce to attract and retain industry. An educated citizen is more likely to earn more and pay taxes and less likely to require social services of various kinds or turn to crime and wind up in prison. A quality public school system enhances home values.

## ***supporting education***

- ▶ Citizens can shape educational policy at the state and district level by becoming informed about education finance issues at the state and local district level.
- ▶ Get involved in addressing one of the issues identified in the policy issues section, such as disparities between districts, consolidation of smaller districts, the balance between state and local funding, or the issue of fiscal autonomy for school districts.
- ▶ Make your state representatives and senator and members of your local school boards aware that you support adequate and equitable funding for education.
- ▶ Get involved with local schools. Attend school board meetings, parent groups, the school improvement council, and volunteer.
- ▶ Find out what issues the schools are addressing and express your views.
- ▶ Become a candidate for school board.



- Get informed about bond referendums and talk to others about the issues.
- Visit the school district Web site to find out what is happening.
- Talk to local government officials about what concerns they have about financing education. Ask how you can make a difference.

***get information***

- For reports and resources on financing education, go to these sites:  
 SC Department of Education—[www.myscschools.com](http://www.myscschools.com)  
 Public Education Network—[www.publiceducation.org](http://www.publiceducation.org)  
 SC State School Boards Association—[www.scsba.org](http://www.scsba.org)  
 SC Association of School Administrators—[www.scasa.org](http://www.scasa.org)  
 SC Department of Education—[www.myscschools.com](http://www.myscschools.com)  
 Palmetto State Teachers Association—[www.palmettoteachers.org](http://www.palmettoteachers.org)  
*Rankings of Counties and School Districts in South Carolina, 2002-03*  
 SC Education Oversight Committee—[www.sceoc.com](http://www.sceoc.com)  
 SC Education Association—[www.thescea.org](http://www.thescea.org)  
 National Center for Education Statistics—[nces.ed.gov](http://nces.ed.gov)  
 US Department of Education—[www.ed.gov](http://www.ed.gov)



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